0 Rq 1 Research Institute

Friday, August 16, 1974

Dear Member:

The Pres. must take personal charge of the inflation fight, and do so quickly, lest he lose control to the pressure of events. That's the gist of the economic advice given Ford by close aides, as the bickering of policymakers like Rush, Ash, Simon escalates.

As a result Ford has speeded up his economic policy timetable, is already adding specifics to vague generalities in his speech. Budget cuts alone, he's been told, can't do the job that's needed.

Point is that the rate of inflation can't be reduced quickly, won't be "acceptable" for 2 years or more, no matter what's done. And business, labor, consumers and voters simply won't sit still for that unless there's clear evidence that the Admin. is trying.

The Nixon team's appeals for self-restraint won't work now, Ford has been told, nor will dependence on "market mechanisms." The honeymoon, while it lasts, must be taken full advantage of to create a tempo of activity, and rebuild business confidence.

One early step: The economic summit meeting will be rushed. Not that the conference can solve anything -- nobody expects that. But its planning and execution will be a sign of determination.

There's no chance the summit will produce economic consensus: Dem and GOP economists can't even each agree among themselves. But there's reason to expect the nation's top economic brains, meeting with its top politicos, can produce workable compromise.

The "cost-of-living task force," or whatever it is called, is being pushed through Congress as another visible first step. Its value will be largely psychological, even proponents agree, but they say that's not to be under-rated in today's atmosphere.

Without standby controls authority to hold out as a threat, the task force will have to rely primarily on adverse publicity. It could collapse the first time it is successfully challenged, but the hope is it'll work long enough to brake inflation some.

Key personnel changes will be further evidence of action. The powerful Office of Mgmt. & Budget will be sharply curtailed, its policy-making role virtually eliminated with little delay. And Roy Ash, the OMB head, will be one of the first casualties.

Treasury Sec. Simon and Chief Adviser Greenspan will stay, though the betting is neither will last out the full Ford term. Simon, it is said, is considered expendable if his replacement by an "elder statesman" of greater stature could be assured.

Greenspan agreed to come on board only with Nixon's promise he'd be the chief economic adviser in fact as well as in title. But Ford is already being pressed to balance Greenspan's views by appointing a moderate to the Council of Economic Advisers. And some who know Greenspan well doubt that he'd accept that.

Beyond this, there are few solid plans in the economic works. But meetings with businessmen, union leaders, economists, etc. will continue. Practical advice will be sought and acted upon. The aim is a steady flow of decision-making, no grandstand plays.

Recommendations already received from inside & outside gov't, getting intensive staff study for possible action, include these:
...Set up local productivity councils, company by company, on the WW II model, to achieve small but cumulative improvement.

...Re-activate the Construction Industry Stabilization Comm. with or without statutory force, to head off a wage explosion.
...Step up antitrust enforcement against supply restraints, including a sharp boost in maximum penalties for violations.

Net, the new Admin. is determined to "get things moving," to build a visible momentum across the full economic policy front. To the extent it succeeds, the critical situation will improve. If it fails, if floundering takes over again, the view is dark.

The Cyprus crisis has shoved President Ford into the vortex: He had to take command of foreign policy sooner than he wanted to, move Presidential prestige into efforts to avoid intra-NATO war.

The test is turning into a crash course on foreign affairs. The Nixon-Kissinger team had "tilted" U.S. policy towards Turkey, figuring Greece had fewer independent options than the Turks did. Besides, Turkey had already imposed a military solution on Cyprus.

The U.S. now reluctantly accepts the situation on Cyprus: Turkey will carve out a disproportionately large island enclave, perhaps partition the country, perhaps dominate a coalition gov't. And there's little Greece can do to change military balance there.

Premier Caramanlis had two policy options left open to him: pull his troops out of NATO, threaten to close down U. S. bases, and go to war against Turkey on their common frontier in Thrace. He's exercised the first one, is seriously pondering the second.

The Pres. then injected himself personally into the crisis, "strongly urged" Turkey to observe the UN-ordered cease-fire. It was an effort to redress the "tilt" back in Greece's favor. The other U. S. ace -- a threat to stop the arms flow to both -- isn't much of a card. Turkey could get needed weapons from Russia.

Ford is incensed that the U.S. can apply so little muscle to two nations so dependent on Washington for arms and other aid.

He is also annoyed that the crisis found the U.S. so ill-prepared, after it had seemed as if the problem had been settled at last, the Greek colonels toppled and a democratic government in Athens.

However the crisis is settled, and diplomats think it will be even if Greece and Turkey engage in a "quick" war in the North, it is sure to influence Ford's thinking on foreign policy deeply, There will probably be less military aid flowing to our allies, and there will be more strings attached to arms that are given.

The most important long-range effect of all this, however, has been to put Ford into a position of foreign policy leadership, do so much sooner than anyone thought -- or the President wanted.

And the speed with which the Cyprus settlement was unstuck will increase the President's anxiety about the Mideast situation: The limited Arab-Israeli agreement could fall apart just as easily.

In any event, Cyprus has spurred Ford's foreign involvement, speeded up the timetable for his taking control of U.S. policies.

Gold ownership by private U.S. citizens is close to reality. Under the law signed by Pres. Ford this week it'll become legal after Dec. 31, unless the gov't decides to approve it even sooner.

Banks, securities & commodities dealers, private mints, etc. will be ready to sell you gold ingots, bars and wafers promptly. And the commodities exchanges are set to activate futures trading.

Be prepared to pay the U.S. market price plus commission -- about 6% -- when you buy, and another fee when you decide to sell. And don't expect to get the Zurick, London or other quoted price. Prices can vary considerably from market to market, short-run.

As with any new market, there'll be plenty of "operators." Some schemes we've already heard about will just be expensive -- others, promising sure profits, seem to verge on the fraudulent.

RIA Recommendation: If you add gold to your investments, be sure to deal with an established, experienced organization. And don't figure to make a quick buck by outsmarting the pros.

Finally, there's some chance legal gold could be delayed. Treasury Sec. Simon says that the Admin. might ask for more time, if the world situation becomes unstable enough to justify this. But that'd take quick action by the dying Congress, is unlikely.

The Health care bill: a race against time in this session, a certainty for passage in the next Congress, no later than April.

If these were ordinary times, the bill couldn't pass this yr. The legislative calendar is too tight for both houses to approve.

But with the impetus President Ford has given, any bets are off.

Chairman Mills has come up with a "passable" health package designed to implement coverage in stages and at various levels. It would replace Medicaid with federally funded care for the poor, provide protection against catastrophic illness via a payroll tax.

Finally, the Mills proposal would phase in broad coverage for the bulk of the work force, to become effective July 1, '76. Employers would have to offer it, employees required to take it. Costs would be shared, but management pay most of the premiums.

There's no price tag on the Mills plan or on other measures. The best estimate puts cost at $12 to $15 billion in new money, with no clear indication how much gov't and business would pay.

Mills' plan calls for drafting an "outline" bill this week, then having Ways & Means staffers give it shape during the recess. That leaves Senate action up in the air unless the Finance Comm. moves concurrently to work on the Ways & Means draft in September. In any event, passage will be a nip-&-tuck race down to the wire.

The news on the strike front is bad & won't get better soon. Not only is their number unusually high, no downturn is coming. Moreover, smaller companies are taking the brunt of new strikes as unions push demand for wage hikes to offset zooming inflation.

Ironically, the reason so many small companies are being hit lies in the success of many giant firms in preventing walkouts. This by paying sky-high increases, boosting prices to cover them.

That's whetted the expectations of small-company employees. But smaller firms are in a more competitive marketing situation, can't pass higher costs on so easily. They're squeezed and stuck.

A prime objective of Pres. Ford's new Cost of Living Council will be to call attention to this situation, at least indirectly. It will focus public attention on outsize wage and price hikes, single out those who are benefiting the most from such increases.

But the COLC's spotlight, unhappily, isn't likely to help, especially in three major, upcoming labor negotiations this year: aerospace in September, soft coal in November, railroads in Dec. Indeed, outlook now favors a tough nationwide walkout by miners.

Finally, the picture is clouded by public service strikes. Teachers resume bargaining in Sept. Their militancy is way up. And police and firemen's strikes are also feared down the road.

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